

Message Text

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ACTION EB-04

INFO OCT-01 ISO-00 SS-14 SP-02 L-01 INR-05 EUR-08
EA-06 DLOS-02 OES-02 IO-06 /051 W
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TO SECSTATE WASHDC PRIORITY 7348
INFO AMEMBASSY CANBERRA

C O N F I D E N T I A L SECTION 01 OF 02 OTTAWA 02364

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FOR EUR/CAN, D/LOS, EB AND EA/ANP

E.O. 11652: GDS
TAGS: EMIN, OTRA, PLOS, AS, CA
SUBJECT: CANADIAN VIEWS ON WORLD NICKEL DIALOGUE

REF: A. CANBERRA 2798, B. STATE 91764, C. OTTAWA 1813

1. SUMMARY. GOC IS MOVING TO ASSIST CANADA'S TROUBLED MINING INDUSTRY THROUGH INCREASED COOPERATION WITH PROVINCES WHICH IT HOPES WILL DIMINISH TAX LAYERING ON INDUSTRY. IT IS ALSO LOOKING TO INTERNATIONAL ARENA FOR POSSIBLE SOLUTIONS. GOC, HOWEVER, REJECTS IDEA OF COMMODITY AGREEMENT AND WANTS TO AVOID ANY MAJOR ROLE FOR UNCTAD IN NICKEL ARRANGEMENTS. GOC AND CANADIAN INDUSTRY ARE IMPRESSED WITH SUCCESS OF LEAD-ZINC STUDY GROUP (LZSG) AND HAVE BEGUN TALKS WITH AUSTRALIANS WHICH THEY HOPE TO EXPAND INTO A CONSENSUS BUILDING EXERCISE AIMED AT ESTABLISHING AUTONOMOUS CONSULTATIVE BODY FOR NICKEL BASED ON LZSG MODEL. CANADIANS BELIEVE CONSENSUS BUILDING WILL BE DIFFICULT AT BEST. THEY SEE DEFINITION OF RELATIONSHIP
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WITH UNCTAD AND LINKAGE TO LOS DEEP SEABED ISSUES AS MAJOR POTENTIAL OBSTACLES TO ESTABLISHMENT OF PRODUCER-CONSUMER CONSULTATIVE BODY.

2. GOC OFFICIALS WANT TO BRING USG INTO DISCUSSIONS AND HAVE ASKED EMBASSY TO SOUND OUT DEPARTMENT ON POSSIBILITY OF MEETING IN OTTAWA WITHIN NEXT TWO WEEKS TO GIVE STATE

DEPARTMENT REPRESENTATIVES DETAILED OUTLINE OF CANADIAN POSITION. REQUEST INSTRUCTIONS REGARDING PROPOSED MEETING SOONEST. END SUMMARY.

3. ECONOFF MET WITH EXTAFF COMMODITY AND ENERGY POLICY DIVISION OFFICIALS DONALD CAMPBELL AND JEAN TREMBLAY MAY 4 TO DISCUSS DEVELOPMENTS REPORTED REFTELS. ENSUING CONVERSATION RANGED OVER CANADIAN DOMESTIC MINERAL DEVELOPMENT POLICIES, GOC VIEWS ON POSSIBLE INTERNATIONAL NICKEL ARRANGEMENTS AND ITS POSITION ON DEEP SEABED MINING.

4. GOC OFFICIALS REVIEWED SERIOUS PROBLEMS CONFRONTING CANADIAN MINING INDUSTRY, PARTICULARLY NICKEL MINING FIRMS WHICH HAVE BEEN HARD HIT BY RECENT MINE CLOSURES, NOTED CONSIDERABLE POLITICAL PRESSURE ON GOVERNMENT TO AID INDUSTRY AND AFFIRMED GOC INTENTION TO COOPERATE WITH PROVINCES IN EFFORT TO RATIONALIZE FEDERAL AND PROVINCIAL MINERAL TAX POLICIES, THEREBY REDUCING HISTORIC TAX LAYERING PROBLEM. (SEE REF C FOR DETAILED DISCUSSION OF RECENT GOC MOVES IN THIS DIRECTION.)

5. IN PARALLEL EFFORT, GOC IS CAUTIOUSLY EXPLORING POSSIBILITY OF INTERNATIONAL ARRANGEMENTS FOR NICKEL. GOC APPROACH IS SHAPED BY STRONGLY HELD INDUSTRY VIEWS. CANADIAN INDUSTRY OPPOSES STOCKPILING, CARTELS, OR ANY FORM OF WHAT IT CALLS "MARKET RIGGING." MINERS ARE ALSO CONFIDENTIAL

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SKEPTICAL ANY SCHEME INVOLVING UNCTAD AND WOULD REJECT ANY PROPOSAL FOR A COMMODITY AGREEMENT. CANADIAN INDUSTRY, HOWEVER, SEES LZSG AS PROMISING DEVELOPMENT. GOC THEREFORE WANTS TO WORK TOWARD DEVELOPMENT OF SIMILAR PRODUCER-CONSUMER CONSULTATIVE BODY FOR NICKEL. AS YET, THE CANADIANS HAVE ONLY A ROUGH NOTION OF HOW THIS PRODUCER-CONSUMER GROUP WOULD FUNCTION. THEY SEE IT AS A STRICTLY CONSULTATIVE BODY THAT WOULD MEET REGULARLY, DISCUSS PROBLEMS, GENERATE A STATISTICAL BASE FOR MARKET ANALYSIS, MAKE FORECASTS AND GENERALLY WORK TO IMPROVE MARKET TRANSPARENCY.

6. BECAUSE CANADA IS LARGEST NICKEL PRODUCER, GOC QUITE UNDERSTANDABLY DOES NOT WANT TO RIDE POINT IN THIS EXERCISE AND IS QUIETLY SUPPORTING INITIAL AUSTRALIAN MOVES TO SOUND OUT GOVERNMENTS CONCERNED. GOC-GOA PLAN IS TO ESTABLISH CONSENSUS FIRST AMONG MOST IMPORTANT PRODUCING AND CONSUMING COUNTRIES--U.S., JAPAN, FRANCE AND EC--ON POSSIBILITY OF CONSULTATIVE ORGANIZATION, THEN EXPAND DISCUSSION TO INCLUDE SOVIET UNION AND LDC PRODUCERS. APPARENTLY FIRST STEP WAS TAKEN BY GOA REPS MENTIONED REFTELS A AND B WHO DISCUSSED CONCEPT WITH JAPANESE EN

ROUTE BACK TO AUSTRALIA. GOJ WAS REPORTEDLY NON-COMMITAL.

7. GOC HAS NO FIRM CONCEPT OF HOW CONSULTATIVE ORGANIZATION EMERGING FROM THIS CONSENSUS BUILDING EXERCISE WOULD RELATE TO UNCTAD. IDEALLY, CANADIANS WOULD LIKE TO HAVE AUTONOMOUS CONSULTATIVE GROUP WITH NO TIES TO UNCTAD. SETTING UP SUCH AN ORGANIZATION UNDER CONVENTIONAL UNCTAD FORMAT WOULD BE SLOW PROCESS, POSSIBLY TAKING YEARS AND RISKING UNCTAD/LDC BIAS IN FAVOR COMMODITY AGREEMENTS DISTORTING KIND OF INSTITUTIONS GOC HAS IN MIND. WITH IMMEDIATE PROBLEM OF SUDBURY SHUTDOWNS ON ITS HANDS, GOC MUST TRY TO AVOID DELAY UNCTAD ROUTE WOULD ENTAIL. CANADIANS ARE ACUTELY AWARE, HOWEVER, THAT ANY VIABLE CONSENSUS ON NICKEL CONSULTATIVE BODY MUST INCLUDE SOVIET
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C O N F I D E N T I A L SECTION 02 OF 02 OTTAWA 02364

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UNION AND LDC PRODUCERS WHO ARE LIKELY TO INSIST ON SOME FORM OF UNCTAD LINKAGE. GOC THEREFORE BELIEVES CONSENSUS BUILDING EFFORT WILL BE DIFFICULT.

8. TREMBLAY AND CAMPBELL RAISED PROBLEM OF INEVITABLE LINKAGE BETWEEN PRODUCER-CONSUMER DISCUSSIONS ON NICKEL

AND LOS DEEP SEABED MINING ISSUE. THEY DID NOT ELABORATE ON THIS THEME IN DETAIL BUT NOTED THE PROBLEM. NICKEL DEMAND DOWNTURN AND RESULTING LAYOFFS AT SUDBURY HAVE IN THEIR VIEW VINDICATED CANADIAN NICKEL DEMAND GROWTH PROJECTION OF 4.5 PERCENT PER YEAR. GOC ALSO SEES GROWING EVIDENCE THAT CANADA'S SULFIDE BODIES WILL LAST LONGER THAN 30-YEAR LIFE SPAN FORECASTED PREVIOUSLY. INDUSTRY CONTINUES TO ADD TO RESERVES AND ALTHOUGH DEPOSITS ARE DEEPER (NOW 4000-5000 FEET AT SUDBURY) AND MORE EXPENSIVE TO MINE, THEY REMAIN ECONOMICALLY VIABLE. FUTURE PRICE INCREASES COULD SHIFT ADDITIONAL DEPOSITS INTO ECONOMICALLY VIABLE RESERVE CATEGORY.

9. WHEN ECONOFF ASKED WHETHER GOA, IN ITS DISCUSSIONS WITH GOC, INDICATED IT MIGHT CONSIDER COMMODITY AGREEMENT CONFIDENTIAL

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ON NICKEL, TREMBLAY SAID GOA REPS NEVER MENTIONED IT AND EXPRESSED SURPRISE THAT GOA WOULD EVEN CONSIDER COMMODITY AGREEMENT. THIS DOES NOT SEEM TO SQUARE WITH GOA COMMENTS REPORTED PARA 2, REF B.

10. AT CONCLUSION OF MEETING GOC OFFICIALS NOTED UNITED STATES IS THE LEADING NICKEL CONSUMER AND GOC AND GOA DO NOT WANT TO PROCEED WITH ESTABLISHMENT OF A CONSULTATIVE ORGANIZATION WITHOUT OUR ACTIVE PARTICIPATION. BOTH GOVERNMENTS WANT TO AVOID A REPETITION OF URANIUM ANTI-TRUST IMBROGLIO AND SEE BEST WAY OF DOING SO IS TO BRING U.S. IN AT EARLY STAGE OF DISCUSSIONS.

11. CAMPBELL AND TREMBLAY EXPRESSED STRONG INTEREST IN FURTHER DISCUSSIONS WITH STATE DEPARTMENT OFFICIALS. WITHOUT MAKING FORMAL COMMITMENT, TREMBLAY SAID IF WE WERE INTERESTED HE WOULD ATTEMPT TO ARRANGE A SMALL MEETING IN OTTAWA ONE OR TWO WEEKS FROM NOW WITH SELECT INTERAGENCY GROUP ON CANADIAN SIDE AND STATE DEPARTMENT OFFICIALS ONLY ON U.S. SIDE. CANADIANS WISH TO RESTRICT MEETING BECAUSE ISSUE IS NOT BEING WIDELY DISCUSSED IN OTTAWA. THEY WANT TO LIMIT PARTICIPATION ON THEIR SIDE AS WELL.

12. EMBASSY REQUESTS DEPARTMENT INSTRUCTIONS ON RESPONSE TO TENTATIVE GOC PROPOSAL. DUEMLING

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